

Alberta Energy Company Ltd.

Revised November 24, 1986 (IOC)
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 cards on this Company

CUSIP Number 012873
 Stock Symbol AEC

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THE COMPANY was formed to develop industrial and resource bases of the Canadian economy, particularly in the Province of Alberta. Present projects and investments are in the oil and gas, oil sands, pipeline, utility, forest products and coal industries.

COMPARATIVE DATA									
Fiscal Year	L.-Term Debt	Working Capital	Cash Flow	Revenue	Net Inc. Oper.	Earns. Per Sh.	Divds. Paid	Price Range High	Price Range Low
000's									
	\$	\$	\$	\$	\$	\$	\$	\$	\$
1985....	746,600	26,200	255,300	546,000	80,500	1.44	0.30	22.13	16.13
1984....	587,200	49,900	222,600	484,200	72,300	1.22	0.25	23.25	17.63
1983....	524,900	51,800	211,900	462,100	62,400	1.03	0.20	21.25	13.63
1982....	574,200	62,500	131,000	374,100	33,600	0.57	0.20	20.25	8.00
1981....	524,100	1,500	92,300	285,100	42,400	0.93	0.20	27.75	14.00

CONSOLIDATED CAPITALIZATION AS AT DECEMBER 31, 1985			
	Outstanding		%
Long-term debt	\$746,600,000		56
15% First pref., \$25 par	2,400,000 shs.	60,000,000	4
11 1/2% Second pref., \$25 par	412,512 shs.	10,300,000	1
7.75% Second pref., \$25 par	3,000,000 shs.	75,000,000	6
Common stock, no par value	44,876,570 shs.	209,000,000	16
Unrealized foreign exchange gain		1,500,000	..
Retained earnings		221,400,000	17

SUMMARY STATEMENT

For the six months ended June 30, 1986, net income, operations was \$25,300,000, or 39 cents per share compared with net income of \$51,000,000, or 94 cents per share in the corresponding year-earlier period. An extraordinary item in the 1986 period reversed the operating income to a net loss of \$56,100,000, or \$1.43 per share; there were no such items for 1985. Net revenues declined by 14%.

Financial results for the year ended Dec. 31, 1985, showed an 11% increase in net income on a 13% rise in revenues, net of royalties, compared with results for the previous year.

Construction of the 350,000 tonne per year ammonia fertilizer plant at Joffre, Alta. is proceeding on schedule with plant start-up planned for mid-1987. Alberta Energy will be investing \$105,000,000 over the 1985-87 period and upon completion will be a full 25% participant in all of the revenues from Cominco's existing Calgary and Carseland nitrogen fertilizer operations as well as from the new ammonia plant.

Sale of the company's 8,962,001 shares (17.7% interest) of British Columbia Forest Products Ltd. for consideration of \$13.26 per share or a total of \$118,800,000 was effected during the second quarter of 1986. The company recorded a loss of \$64,700,000 on the sale.

New Issue of \$100,000,000 in 10-year 10.5% unsecured debentures was completed during the first half 1986. Proceeds will be used to replace outstanding floating rate debt.

An agreement has been reached with the Province of Alberta and the company that completes AEC's obligations relative to its 1975 acquisition to petroleum and natural gas rights on the 1,000 square mile Suffield Block. The agreement establishes a schedule for an additional \$51,000,000 as final consideration. The company acquired the right in 1975 for \$54,000,000 plus Crown production royalties and lease rentals, which to November 1986 amounted to \$265,000,000.

N.B.—For quick reference data, see page 2.

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The Financial Post

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QUICK REFERENCE DATA

Major Shareholder—The Government of Alberta, which formed the company, held approximately 37% interest following the sale to Alberta Energy of 6,237,500 of its common shares in early 1985.

Incorporation—Alberta charter September 18, 1973.

Auditors—Price Waterhouse, C.A., Edmonton, Alta.

Fiscal Year Ends—December 31.

Annual Report Appeared—March in 1986.

Annual Meeting—April 9 in 1986.

Listed—AEC, Toronto, Montreal, Alberta and Vancouver Stock Exchanges for common and first preferred shares; Toronto, Montreal and Alberta Stock Exchanges for second preferred shares.

Options Listed—Call and put options traded on the March/June/September/December cycle on the Toronto Stock Exchange.

Shareholders—52,974 at December 31, 1985.

Registrars and Transfer Agents—National Trust Company, Edmonton, Calgary, Vancouver, Winnipeg, Toronto and Montreal; and Canada Trust Co., Regina and Halifax for common and first preferred shares; Royal Trust Company, Edmonton, Calgary, Vancouver, Winnipeg, Toronto, Montreal, Regina and Halifax for second preferred shares.

Ranking in the FP 500—154 by sales; 52 by assets.

COMPANY

The company's purpose is to develop industrial and resource bases of the Canadian economy, particularly in the Province of Alberta.

Principal projects or investments include petroleum and natural gas rights in the Suffield and Primrose areas of Alberta, a forestry complex in Alberta, and participation in Pan-Alberta Gas Ltd. (gas brokerage), and the Coal Valley Project.

At the Syncrude Project near Fort McMurray, Alta., the company owns 66% interest in the utilities plant and 100% in the pipeline as well as 10% direct interest and 7% royalty on 10% on gross production proceeds.

Alberta Energy also holds a 56% interest in Chieftain Development Co. Ltd.

OIL AND GAS OPERATIONS

Properties—As at Dec. 31, 1985, AEC Oil and Gas Company, a division of Alberta Energy held interests in oil and gas acreage as follows:

	Gross Hectares	Net Hectares
Alberta		
Suffield	645,603	641,354
Primrose	1,275,200	1,061,502
Other	1,381,682	488,620
Saskatchewan	87,809	54,096
British Columbia	449,252	154,649
Beaufort	349,780	9,551
	4,189,326	2,409,772

Exploration and Development—During 1985, the company participated in a total of 160 gross (64.4 net) exploratory wells, resulting in 42 gross (13.9 net) oil wells, 14 gross (6.9 net) gas wells and 10 gross (3.3 net) cased wells awaiting evaluation. Development drilling of a total of 721 gross (657.8 net) wells, yielded 159 gross (99.5 net) oil wells, 559 gross (557.4 net) gas wells and one gross (0.3 net) cased well awaiting evaluation. During the first six months of 1986, 105

exploratory wells were drilled, resulting in 14 oil discoveries, 12 gas successes and 15 wells cased for further evaluation.

Alberta Energy has a 70% interest in 76,000,000 m³ of heavy oil in the Suffield block, only a small portion of which can be recovered by conventional means. The Suffield heavy oil pilot (operational since 1982) has been testing the enhanced recovery technique of fire-flooding to increase the ultimate recovery of this oil.

During 1985, an agreement was reached with a Suffield area gas purchaser which resolved the dispute that had arisen as a result of the purchaser failing to pay for gas not taken. During the contract year ending Oct. 31, 1985, the purchaser took only 23% of its obligation. The new agreement will allow the purchaser to make up past deficiencies over the next two years.

Two major development programs were undertaken on the Suffield Block during 1985. In one program, 400 shallow gas wells were drilled as an additional step in developing the full production and recovery potential of the large Suffield reserves. There are now approximately 3,100 producing gas wells at Suffield, making it the largest North American natural gas field owned by a single operator.

The second major program at Suffield was a large infill oil development program undertaken in the South Jenner pool in the northwest corner of the Block. A total of 126 oil wells were drilled during 1985. Start-up of the \$40,000,000 South Jenner oil processing and transportation facilities on the Suffield Block proceeded on schedule during the first half of 1986.

On the Primrose range, continuous drilling since 1978 and successful recent pilot operations have led to commercial projects in the Burnt Lake region. The 25,000 bbl. per day Burnt Lake Thermal project operated by Suncor Inc. will be constructed in four phases, each with daily output of 6,250 bbl. Alberta Energy may choose a 25% working interest, a net profits interest or a combination of working interest and net profits interest. The company's share of heavy oil in place on the Primrose range is approximately 14,500,000 bbl.

Authorization has been received for the 25,000 bbl. per day Primrose commercial project operated by Dome Petroleum Limited. Alberta Energy has the same participation rights in this project as in the Burnt Lake project.

In the 400 sq. mile Caribou Lake region, Alberta Energy is participating in a \$24,000,000 joint venture exploration program with Husky Oil Operations Ltd. A 210-mile seismic program and drilling has commenced. Alberta Energy and Husky have planned an 85-well exploration program to be carried out over three years. If potentially commercial heavy oil sands deposits are identified, the companies will conduct a \$20,000,000 pilot project. Husky has acquired a 50% interest in the oil and natural gas rights held by Alberta Energy and has the right to earn up to a 50% interest in heavy oil sands rights plus an additional 10% interest in a 15 sq. mile area.

In the Ipiatik Lake region, the company has a 60% working interest in a steam recovery pilot, which is in its second year of operation. Three new wells have recently been added to the project in order to test new techniques. To the south of the main plant, two single well steam tests are underway to evaluate the potential of heavy oil bearing formations below the one being tested at the main pilot site.

Due to the expanded oil and gas activities being carried out by the company, AEC Oil and Gas Company was formed during 1983 to operate as a division of Alberta Energy Company. The division handles oil and gas exploration, production and marketing activities. During 1985, the division was involved in an exploration program which included the following areas:

Alberta—In the Tangent/Eaglesham area, three exploratory wells were drilled during 1985, resulting in two oil discoveries. At year-end, Alberta Energy had an average 48% interest in three wells producing at an average rate of 90 bbl. per day each. A further six exploratory wells were planned for the area in early 1986.

In the Senex/Trout area of north central Alberta, the

company holds a 30% interest in a significant new oil pool which was discovered in 1984. A total of six delineation and development wells have been drilled and additional drilling was to be undertaken in 1986 to fully develop the pool. A 1,500 bbl. per day oil treating facility was expected to be operational in early 1986.

Activity increased in the Keg River Basins with seven wells drilled in 1985 resulting in five oil discoveries and one gas discovery. Ten exploratory wells are planned for the play in 1986 as well as development drilling follow-up on two of the recent discoveries. The company has an average 55% interest in 34,400 acres in the Keg River Basins in addition to 14,000 acres under option in the Shekille Basin.

Saskatchewan—The company holds interests in 88,000 acres in this province, including an average working interest of 74% interest in 33,000 acres in southeastern Saskatchewan, where eight wells were drilled, resulting in the discovery and confirmation of two oil fields at Manor and Queensdale. In 1986, six exploratory wells are planned in addition to further development drilling.

British Columbia—The most intensive exploration project undertaken over the past two years has been follow-up exploration and delineation drilling at the 1983 Desan/Helmer oil discovery in northeastern British Columbia. The 6-64-094-P-7 discovery well flowed oil at the rate of 27 m³ per day. The company held a 30% working interest in 67 exploratory and development wells drilled in the area in 1984. The installation of facilities and roads in the area, has allowed continuous production from nine wells since August, 1985. Work is proceeding this winter to tie-in five additional wells. Approximately six exploratory wells are planned for 1986.

Beaufort Sea—The company has participated in five wells, including the Tuk M-09 discovery which tested gas at rates up to 480,000 m³ per day and condensate at a rate of 147 m³ per day. Drilling on the Flemish Pass acreage is expected to commence during 1985.

Reserves—At Dec. 31, 1985, proven and probable reserves were estimated at 27,900,000 bbl. oil and gas liquids and 1,842,000 mcf. of natural gas.

In recent years, the company reported oil and gas reserves as follows:

Fiscal Year	Oil & Liquids m ³	Natural Gas 10 ³ m ³
1984*	2,700,000	60,900,000
1983	2,200,000	61,400,000
1982	1,360,000	83,100,000

*Net reserves.

Note—Excludes the company's 10% ownership of Syncrude's remaining proven synthetic oil reserves of 119,000,000 bbl. and Primrose estimates of heavy oil in place of 14,500,000,000 (net) bbl.

Production—Details of production have been reported as follows:

	Oil, m ³	Gas, 10 ³ m ³
1979	20,900	1,100,000
1980	491,000	1,300,000
1981	492,500	1,700,000
1982	517,800	2,000,000
1983	704,600	2,300,000
1984	600,500	2,300,000
	Oil, Bbls.	Gas, Mcf.
1985	5,700,000	85,600,000
1986*	3,004,600	52,490,000

*Six months ended June 30.

*As shown in 1978 annual report.

Note (1)—Includes Syncrude production commencing in 1980 and Chieftain production from Aug. 1, 1982.

Syncrude Project—On Aug. 30, 1979, the company exercised its option and acquired a 20% interest in the Project at a cost of \$570,000,000. Effective Sept. 1, 1979, the company sold one-half in two parts, 5% to Hudson Bay Oil and Gas Company Limited, now a wholly-owned division of Dome Petroleum Ltd. and 5% to

Petro-Canada Enterprises Inc., formerly Petrofina Canada Inc., for a total cash consideration of \$365,000,000. In addition, the two purchasers will pay AEC an average of 7% of their share of the future gross revenue from the Project. AEC also agreed to give one of the companies the right to purchase AEC's share of production from the Project. The cost to AEC to retain a 10% interest and an average 7% gross overriding royalty on an additional 10% of production was \$205,000,000.

In 1983, Syncrude owners and the Alberta government agreed on a major five-year \$1.5 billion production improvement program to increase production of synthetic crude oil to 140,000 bbl per day. As part of this program, three feeder breakers were installed during 1985 which allows the oil sands previously hauled by truck to the extraction plant to be transported by a more cost-effective conveyor belt system. Also a very large electric mining shovel, which is expected to be less costly than other shovels, was commissioned and in the extraction area, four tailings oil recovery vessels were added to increase bitumen recovery by approximately 6,000 bbl. per day and a naphtha recovery unit was installed. The capacity addition program is expected to be completed during 1987.

Shipments of synthetic oil during 1985 amounted to 46,900,000 bbl. compared with 31,500,000 bbl. in 1984, increase attributed to efficiency improvements incorporated into the plant.

Alberta Energy's 10% ownership of Syncrude's remaining proven synthetic oil reserves is estimated to be 119,000,000 bbl. and the reserve life of the entire project is 25 years at 1985 production rates.

The Syncrude owners and Alberta government agreed during 1986 to continue detailed engineering for the project to expand Syncrude capacity to approximately 200,000 bbl. of oil per day. The government will fund the \$85,000,000 study through an interest-free advance to be repaid out of future expansion profits.

Other participants in the Syncrude Project are Imperial Oil, Canada Cities Service, Gulf Canada, Petro-Canada, PanCanadian Petroleum and the Alberta government.

FORESTRY OPERATIONS

During 1976, the company acquired a 40% interest in a joint venture with Simpson Timber Co. (Alberta) Ltd. for the development of a three-phase forestry complex on 1,200,000 acres at Whitecourt, Blue Ridge area, Alta. In June, 1981, the company purchased, at a cost of \$24,000,000, Simpson Timber of Canada Ltd. Through this acquisition, AEC increased to 100% its ownership of the Whitecourt Forest Management Area and the associated lumber manufacturing plant at Blue Ridge, Alta. The plant, has an annual design capacity of 110,000,000 bd. ft. Shipments in 1985 were 140,000,000 bd. ft. compared with 129,800,000 bd. ft. in 1984. Lumber shipments for the six month period ended June 30, 1986, totalled 77,000,000 bd. ft. compared with 73,000,000 bd. ft. in 1985.

In 1984, Blue Ridge Lumber (1981) Ltd. (wholly-owned) commenced construction of a medium density fibreboard plant on the site of its existing lumber manufacturing facilities near Whitecourt. This project, was completed in June, 1986, on schedule at a cost of \$35,200,000, fulfilling the remaining investment commitment under the Whitecourt Forest Management Agreement. The facility will result in a higher utilization of the timber resource, using shavings and sawdust from the existing mill for a large portion of its fibre requirements. The medium-density fibreboard will serve Canadian, U.S. and offshore markets.

COAL

AEC is a 25% joint venture participant in the Coal Valley Project located on 7,400 hectares (18,300 acres) of coal leases, 130 miles west of Edmonton, Alta. The surface mine, preparation plant and related facilities were completed in 1978 and were designed to produce 2,300,000 tonnes per annum. An expansion to increase the mine's capacity to 3,300,000 tonnes has been completed.

Although the 1985 operations were adversely affected by a fire in the loadout facility in December, 1984 and lower sales volumes to major customers, the mine remained profitable. Alberta Energy's 25% share of production in 1985 was 469,000 tons compared with 579,000 tons in 1984. Net coal sales for the six month period ending June 30, 1986, amounted to 260,000 tons compared with 209,000 tons for the like period of 1985.

The total proven surface mineable coal reserves in the Coal Valley Project are estimated to be 29,400,000 clean tonnes. There are an additional 29,000,000 clean tonnes of possible underground mineable reserves.

NITROGEN FERTILIZER JOINT VENTURE

In June, 1985, the company and Cominco Inc. agreed on a joint venture project which will develop and expand the Alberta-based nitrogen fertilizer production and marketing business.

Alberta Energy will provide \$105 million and Cominco \$11 million toward the total \$116 million cost of the project.

Under the agreement, Alberta Energy will receive 25% of the net revenues from Cominco's existing Calgary and Carseland fertilizer operations and from the new project; Cominco will receive 75%.

Cominco Chemicals & Fertilizers will construct and operate the new 350,000-tonne per annum anhydrous ammonia plant to be built near Joffre, Alta., and anhydrous ammonia storage facilities will be built in Saskatchewan and North Dakota.

The Joffre facility will utilize hydrogen and nitrogen feedstocks produced as by-products of nearby petrochemical plants.

Products of the Cominco-operated joint venture, including ammonia, urea, ammonium nitrate and urea sulphur totalling about 1,200,000 tonnes per year, will serve the markets in Western Canada and the U.S.

Upon completion of all construction in 1987, total productive capacity at the Joffre, Carseland, and Calgary plants will be 850,000 tonnes of ammonia and 630,000 tonnes of urea per annum.

A 36,000 tonne ammonia storage tank in Vade, Saskatchewan will be completed by the end of 1986 and construction of a similar storage tank in North Dakota was expected to begin in August, 1986.

PIPELINES

AEC is a one-third partner in the 545-mile Alberta ethane gathering system in Alberta for the collection of ethane. Initial capacity of the system of 12,083 m³ daily was upgraded in 1979 to 13,825 m³, a portion of which is for upgrading in Alberta and the balance for shipment eastward.

Daily throughput rose to 96,400 bbl. per day in 1985 from 94,000 bbl. per day in 1984. The system gathers ethane from several natural gas processing plants in the province of Alberta and transports it to the ethylene plants near Red Deer, to various enhanced oil recovery sites utilizing an ethane flooding system. In addition, ethane is transported to underground storage caverns near Fort Saskatchewan prior to shipment to eastern Canada and the United States.

Construction of a \$65,000,000, 235 km pipeline from Edmonton to Cold Lake began in August, 1981 and start-up occurred May 25, 1982.

Construction of a \$100,000,000 expansion to the Cold Lake Bitumen Pipeline System commenced in August, 1984, following approval of the Energy Resources Conservation Board. The original 145-mile dual pipeline system was expanded by adding a 24-inch heavy oil/condensate blend pipeline from Cold Lake to Edmonton, which became operational in April, 1985. The average throughput increased to 44,200 bbl. per day during 1985, from 25,300 bbl. per day in 1984.

The original 12-inch heavy oil blend pipeline was converted to a diluent pipeline for transport of large volumes of condensate from Edmonton to Cold Lake where it is mixed with the heavy oil to produce the blend. The present system's capacity of 100,000 bbl. per day of blend can be readily expanded to 300,000 bbl. per day. Some of this expansion will provide for

commercial heavy oil development on the Primrose range.

Lateral pipelines were also constructed to connect expanded heavy oil production facilities in the original Cold Lake development as well as the plant of a new producer at Cold Lake.

During the second quarter of 1986, Alberta Energy and its joint venture partner completed construction and began operation of the \$4,000,000 La Corey Oil terminal near Bonnyville. The facility will accept truck deliveries of heavy oil for shipment to Edmonton via the Cold Lake heavy oil pipeline.

The company, through wholly-owned Alberta Oil Sands Pipeline Ltd., owns and operates a pipeline which transports synthetic crude oil from Syncrude to Edmonton. See Subsidiaries, below.

SUBSIDIARIES

Alberta Oil Sands Pipeline Ltd.—Wholly owned. Formed in 1974, AOSPL owns and operates a 270-mile pipeline which transports synthetic crude oil from the Syncrude operation near Fort McMurray to Edmonton. During 1985, the average daily throughput of synthetic crude oil rose to a record level of 127,500 bbl. per day. An expansion was completed which will increase the throughput capacity of the line to 187,000 bbl. per day from 163,500 bbl. per day. An additional major expansion to increase the daily capacity to levels consistent with added production from the Syncrude capacity addition program were to begin in 1986.

In June, 1983, the company received approval from the Energy Resources Conservation Board to construct a 10-km pipeline lateral to a refinery at Scotford. This facility was commissioned in July, 1984. Total cost of the pipeline was \$5,800,000.

Alenco Holdings, Inc.—Wholly owned.

Blue Ridge Lumber (1981) Ltd.—Wholly owned. Incorp. Oct. 16, 1981. Operates the lumber manufacturing plant at Blue Ridge, Alta.

Chieftain Development Co. Ltd.—56% owned. Engaged in exploration for oil and gas in Canada, the United States and the North Sea, plus contract drilling and automobile and small equipment leasing. (For details, see separate Information Service Basic Card on this company.)

Ranger Forest Products Ltd.—Wholly owned.

AFFILIATED COMPANIES

AEC Power Ltd.—1200, 10707-100th Ave., Edmonton, Alberta T5J 3M1. Alberta Energy holds two-thirds equity interest (TransAlta Utilities one-third) with voting interest shared equally. (See also separate Information Service Basic Card on TransAlta.)

Formed in 1975 to construct a utilities plant to provide steam, electric power and processed water required to operate the Syncrude mining, extraction and upgrading facilities.

The utilities plant was completed in 1978 with a capacity of 260 megawatts of electric power. Total costs were reported at \$293,000,000 to completion. Financing was obtained through the sale of first mortgage sinking fund bonds totaling some \$230,000,000 in U.S. and Canadian funds (see Long-Term Debt).

The sales contract with Syncrude requires Syncrude participants to make cost-of-service payments under all circumstances while the plant is in operation; these payments will reimburse Alberta Energy Co. and TransAlta for all expenses incurred, plus a return on equity of 16% until Dec. 31, 1988, after which date the rate of return is renegotiable at five-year intervals.

Steel Alberta Ltd.—Owned 50% by Alberta Energy Company and 50% by NOVA, AN ALBERTA CORPORATION. This company was formed in 1974 to investigate and assess the merits of investment in the western Canadian steel industry. In 1986, Steel Alberta commenced wind-up proceedings. The shares of this company will be distributed equitably between Alberta Energy and NOVA.

Pan-Alberta Gas Ltd.—Alberta Energy holds 50% equity and 40% voting interest in this company, which was formed in 1972 to supply Alberta natural gas to outside markets. For details, see separate Information

Service Basic Card on NOVA, AN ALBERTA CORPORATION (which company holds 50.005% interest in Pan-Alberta).

Pan-Alberta Resources Inc.—Alberta Energy holds 50% equity and 40% voting interest in this company. AEC has invested \$33,000,000 in a natural gas liquids extraction plant through Pan-Alberta Resources. The plant has been mechanically completed and producing LPG since November, 1983. The company and another company jointly constructed a natural gas liquids extraction plant, which commenced production in July, 1984. AEC holds 25% interest in the plant; products will be sold to two Alberta companies on a long-term cost-of-service basis.

HISTORY

Alberta Energy Company Ltd. was formed by Alberta Charter on Sept. 18, 1973, for the purpose of stimulating, advancing and strengthening the industrial resource bases of the Canadian economy, particularly in Alberta; and for the purpose of encouraging and enabling Albertans and other Canadians to participate in the development of Alberta's industrial and resource potential.

Originally, the company was a Crown Corporation, owned and operated by the Government of Alberta. However, the company became public in December, 1975, when an initial offering of 7,500,000 common shares was made in preference and priority to Alberta residents.

On incorporation, the company held 49.2% interest in Pan-Alberta Gas Ltd., a gas brokerage company. Interest was increased to 50% in 1977.

On July 23, 1974, Alberta Oil Sands Pipeline Ltd. was incorporated as a wholly owned subsidiary with the purpose of constructing and operating a pipeline for the transportation of synthetic crude oil from the Syncrude Project plant near Fort McMurray to Edmonton, Alberta.

In 1975, the company acquired 50% interest in Steel Alberta Ltd., a company formed in 1974 for the purpose of investigating the possibilities of investing in the steel industry in western Canada.

Also in 1975, AEC Power Ltd. was formed for the purpose of constructing power facilities for the Syncrude Project. Alberta Energy Company has two-thirds equity and 50% voting interest in AEC Power.

In 1976, the company acquired a 40% joint-venture interest in a forestry complex being developed at Whitecourt, near Blue Ridge, Alberta. The company's interest was increased to 100% in 1981 upon the acquisition of Simpson Timber Co. for \$24,000,000.

Also in 1977, the company acquired a 25% joint-venture interest with Luscar Ltd. to develop the Coal Valley Project near Edson, Alberta.

The 550-mile Alberta ethane gathering system in which the company has a one-third interest became operational in 1978.

In 1979, the company acquired a 10% interest in the Syncrude Project, which produces synthetic crude oil from the Athabasca oil sands near Fort McMurray, Alberta.

In June, 1981, the company acquired a 28% interest in British Columbia Forest Products Limited from Noranda Mines for \$217,300,000. Interest was subsequently reduced to 18%.

In July, 1982, the company successfully completed an offer to purchase 7,000,000 common shares of Chieftain Development Co. Ltd. to bring its interest to 7,600,000 shares (57%). Chieftain shareholders were offered \$24 cash or 0.96 second preferred share, series 1.

In 1985, the company purchased 6,237,500 of its common shares from the government of Alberta for \$125,000,000, thereby reducing the government's interest to approximately 37%.

In 1986, the company sold its 8,962,001 shares (17.7% interest) of British Columbia Forest Products Ltd. for consideration of \$13.26 per share, or a total of \$118,800,000. The shares were purchased by a syndicate led by Dominion Securities Pitfield Ltd. and Gor-

don Capital Corporation. Alberta Energy recorded a block loss of \$64,700,000 on the sale of the shares.

Also in 1986, Steel Alberta Ltd., owned jointly by Alberta Energy and NOVA, AN ALBERTA CORPORATION, commenced wind-up proceedings. Shares of this company will be distributed equally between Alberta Energy and NOVA.

OFFICERS AND DIRECTORS

Officers—D. E. Mitchell, pres. and CEO; J. G. Armstrong, sr. v.p. finance; F. W. Proto, Gwyn Morgan, sr. v.p.'s; H. J. McFadyen, R. D. Dunn, v.p.'s; E. J. Martin, v.p. & compt.; A. J. Moore, sec.; S. R. Chen-See, asst. sec.; J. D. Watson, treas.

Directors—D. E. Mitchell, J. H. Tims, J. E. Maybin, C. M. Leitch, Calgary; M. M. Baldwin, P. L. P. Macdonnell, S. A. Milner, Edmonton; R. J. Nelson, Lloydminster; G. H. Sissons, Medicine Hat, all Alta.; D. S. Macdonald, Toronto.

CAPITAL STOCK (At Dec. 31, 1985)

	Author.	Outstand.	Par
1st. Pref. Series A	20,000,000 shs.	2,400,000 shs.	\$25
2nd. Pref. Series 1	20,000,000 shs.	412,512 shs.	\$25
Series 2		3,000,000 shs.	
Common	300,000,000 shs.	44,876,570 shs.	n.p.v.

Reserved Shares—At Dec. 31, 1985, 100,108 common shares were reserved for issuance under a Share Purchase Plan established for company officers and employees (presently inactive); 1,239,080 common shares were reserved for options; 4,575,024 common shares were reserved for conversion of second preferred shares; and 733,861 common shares were reserved under the shareholder investment plan.

Options—At Dec. 31, 1985, options were outstanding on the purchase of 775,580 common shares at prices ranging from \$10.58 to \$19.92 per share, exercisable between 1986 and 1992.

First Preferred Shares:

The total authorized number of first preferred shares of \$25 par value is 20,000,000 shares.

General Provisions—Issuable in series at the discretion of the directors. All series of the first preferred shares rank on parity with each other, but rank senior to the second preferred and common shares with respect to the payment of dividends, and the distribution of assets and return of capital in the event of liquidation, dissolution or winding-up of the company.

In the event of liquidation, dissolution, etc., entitled to \$25 per share plus accrued dividends.

Not entitled to vote except at such meeting called for the purpose of authorizing liquidation, dissolution or winding-up or the sale of all or substantially all of the company's assets.

15% First Preferred, Series A:

Entitled to receive fixed, cumulative, preferential cash dividends at an annual rate of \$3.75 per share.

Redemption—Not redeemable prior to Dec. 1, 1986. On or after that date redeemable at the option of the company in whole at any time or in part from time to time on not less than 30 days' notice, at the following prices if redeemed in the 12 months ending Dec. 1:

1987 ..	\$26.50	1990 ..	\$26.50	1993 ..	\$25.90
1988 ..	\$26.50	1991 ..	\$26.50	1994 ..	\$25.60
1989 ..	\$26.50	1992 ..	\$26.20	1995 ..	\$25.30

and thereafter at \$25 per share; plus accrued dividends to the date of redemption in each case.

Purchase Fund—The company shall make all reasonable efforts to purchase in the open market or by tender at prices not exceeding \$25 per share, plus accrued dividends, and costs of purchase; 20,000 series A preferred shares in period commencing Apr. 1, 1982 and ending May 31, 1982; 30,000 series A preferred shares quarterly in the period commencing June 1, 1982 and ending Nov. 30, 1986; and thereafter 1 1/4% of the series A preferred shares outstanding on Dec. 1, 1986 quarterly in the period commencing Dec. 1, 1986

to Nov. 30, 1991, inclusive; and thereafter 1 1/4% of the series A preferred shares outstanding on Dec. 1, 1991. If the company is unable to purchase the required number of series A preferred shares in any calendar quarter, the obligation shall only carry over to the succeeding quarters of the same 12-month period.

Retraction Privilege—Retractable at the option of the holder on Dec. 1, 1986 and Dec. 1, 1991 at \$25 per share plus accrued dividends, in each case. Such privilege must be exercised on or before Nov. 21, 1986 or Nov. 22, 1991, as the case may be, by depositing such certificates with the company. The company shall also give notice of such privilege on or before Oct. 21, 1986 and Oct. 22, 1991, respectively.

In addition to the retraction privilege, the holders of the series A first preferred shares will have the right to convert any or all of such shares into a further series of first preferred shares on a share-for-share basis should the company elect to create such shares. The company must create the new shares on or before Oct. 21, 1986 or Oct. 22, 1991 and may only issue the additional shares if certain conditions are satisfied.

Purpose of Issue—Net proceeds used to reduce indebtedness.

Offered—2,400,000 shares on Feb. 18, 1982 at \$25 per share to yield 15% per annum by a group managed by Pitfield Mackay Ross Ltd. and Richardson Securities of Canada.

Second Preferred Shares:

The total authorized number of second preferred shares of \$25 par value is 20,000,000 shares.

General Provisions—Issuable in series at the discretion of the directors. All series of the second preferred shares rank on parity with each other, but rank senior to the common shares with respect to the payment of dividends, and the distribution of assets and return of capital in the event of liquidation, dissolution or winding-up of the company.

In the event of liquidation, dissolution etc., entitled to \$25 per share plus accrued dividends.

Not entitled to vote except at such meeting called for the purpose of authorizing liquidation, dissolution or winding-up or the sale of all or substantially all of the company's assets.

11.25% Second Preferred, Series 1:

Entitled to receive fixed cumulative, preferential cash dividends at the annual rate of \$2.8125 per share. Subject to applicable law, the company may, at its option increase the dividend rate at any time prior to either Aug. 1, 1984 or Aug. 1, 1989 with effect from Oct. 1, 1984 or 1989, as the case may be.

Redemption—Not redeemable prior to Jan. 1, 1985. On or after that date, redeemable at the option of the company provided that the weighted average price of the company's common shares traded on the Toronto Stock Exchange during the 20 consecutive trading days ending not earlier than the fifth day preceding the date on which notice of redemption is given, is not less than 125% of the conversion price then in effect. Subject to the foregoing, redeemable in whole at any time or in part from time to time on not less than 30 days' notice at the redemption price of \$26.50 per share from Jan. 1, 1985 to Aug. 1, 1989, inclusive and thereafter at \$25; plus accrued dividends in each case.

The company may at any time purchase for cancellation any part of the series 1 second preferred shares in the open market at a price not to exceed \$26.50 to Jan. 1, 1985, and thereafter at the current redemption price in effect.

Purchase Obligation—The company shall make all reasonable efforts to purchase in each calendar quarter, commencing Oct. 1, 1989, 1% of the number of series 1 second preferred shares outstanding on Aug. 2, 1989 at a price not exceeding \$25 per share plus accrued dividends and costs of purchase. Such obligation if unfulfilled in any calendar quarter, shall only carry over to the succeeding quarters of the same calendar year.

Conversion—Convertible at the option of the holder on or after July 1, 1984 to July 1, 1989, inclusive, into

two common shares of the company by tendering \$12.30 with each preferred share to be converted.

Retraction Privilege—Retractable at the option of the holder on Aug. 1, 1984 or Aug. 1, 1989 at \$26.50 plus accrued dividends. Such privilege must be exercised on or before July 22, 1984 or July 22, 1989, as the case may be. The company, also shall give notice of the retraction privilege and any increase in the dividend rate on or before July 5, 1984 or July 5, 1989.

Issued—To shareholders of Chieftain Development Co. Ltd. on the basis of 0.96 second preference shares, series 1, for each common share of Chieftain; as a result of which 412,515 shares were issued in July, 1982. (Chieftain shareholders had the option to receive \$24 cash in lieu of second preferred shares.)

7.75% Deferred Convertible Second Preferred, Series 2:

Entitled to fixed cumulative preferential cash dividends at a rate of 7.75% (\$1.9375) per share per annum, to be paid quarterly on the first day of January, April, July, and October in each year.

In the event of liquidation, dissolution, or winding up of the company, after payment of amounts due to holders of first preferred shares, entitled to the amount paid up on such second preferred shares, plus all accrued and unpaid dividends.

Redemption—Not redeemable on or prior to May 15, 1988. On or after May 16, 1988, and prior to May 16, 1990, not redeemable unless the weighted average price at which the common shares of the company have traded on the Toronto Stock Exchange during the 20 consecutive trading days ending not earlier than the fifth trading day preceding the day on which the notice of redemption is given, was not less than 125% of the conversion price. Subject to the foregoing, redeemable in whole at any time or in part from time to time on not less than 30 days' notice at \$26.50 per share from May 16, 1988, to May 15, 1990; thereafter premium decreasing by \$0.25 per annum to May 15, 1995; thereafter at \$25 per share; in all cases plus accrued and unpaid dividends.

The company may at any time purchase for cancellation any part of the series 2 second preferred shares in the open market at a price not exceeding \$26.50 per share to May 16, 1990, and thereafter at a price not exceeding the then applicable redemption price.

Purchase Obligation—The company shall make all reasonable efforts to purchase in the open market in each calendar quarter, commencing July 1, 1995, 1% of the number of series 2 second preferred shares outstanding on May 17, 1995, at a price not exceeding \$25 per share plus accrued dividends and costs of purchase. Such obligation, if unfulfilled in any calendar quarter, shall only carry over to the succeeding quarters of the same calendar year.

Conversion—Not convertible prior to May 16, 1987; thereafter convertible at the option of the holder from May 16, 1987, to May 16, 1995, or the third business day prior to the date fixed for redemption whichever is earlier, on a conversion basis of 1.25 common shares for (a) each series 2 preferred share and (b) a cash amount equal to the difference between the \$25 par value of each series 2 preferred share and the aggregate conversion price of the 1.25 common shares. The conversion price will be the price which is equal to 90% of the weighted average price at which the common shares trade on the Toronto Stock Exchange during the period of 20 trading days ending May 16, 1987, subject to a minimum conversion price of \$20 per common share. The conversion price is subject to adjustment in certain events.

Priority—Second preferred shares, series 2, rank junior to the first preferred shares, on a parity with all other second preferred shares, and are entitled to preference over common shares and any other shares ranking junior to the second preferred shares.

Voting—Non-voting except at a meeting called for the purpose of authorizing the liquidation, dissolution, or winding up of the company or the sale of all or substantially all of its assets.

Purpose of Issue—Net proceeds used to reduce unsecured bank loans.

Offered—3,000,000 shares on May 3, 1985, at \$25 per share by Wood Gundy Inc., Richardson, Green-shields of Canada Limited, McLeod Young Weir Limited, Dominion Securities Pitfield Limited and Midland Doherty Limited.

Common Shares—Entitled to one vote per share. Provision of the Alberta Energy Company Act (AEC Act) stipulates that only Canadian citizens or residents are allowed to purchase, hold or own shares of the company, and that any offering of shares to the public at large must first be made in preference or priority to residents of the Province of Alberta. No individual shareholder or related group of shareholders other than the Province of Alberta may own more than 1% of the outstanding stock of the company.

PRICE RANGE OF STOCK

First Preferred

AEC, PR. A

Year	High	Low	Year	High	Low
1982*	\$31.50	\$25.50	1984	\$33.00	\$29.25
1983	33.50	29.50	1985	30.38	28.00

*Listed May 3.

Second Preferred, Series 1

AEC, PR. B

Year	High	Low	Year	High	Low
1982*	\$31.50	\$27.00	1984	\$39.75	\$30.50
1983	39.75	31.13	1985	38.00	34.50

*Listed Oct. 14.

Second Preferred, Series 2

AEC, PR. C

Year	High	Low
1985*	\$27.75	\$24.75

*Listed June 17.

Common

AEC

Year	High	Low	Year	High	Low
1976*	\$12.25	\$8.50	1981	\$27.75	\$14.00
1977	19.25	11.75	1982	20.25	8.00
1978	19.75	14.63	1983	21.25	13.63
1979	43.25	18.63	1984	23.25	17.63
1980	24.38	12.50	1985	22.13	16.13

*Listed Jan. 26.

Adjusted to reflect 3-for-1 stock split, Apr. 23.

CHANGES IN CAPITAL STOCK

On Sept. 18, 1973, when the company was incorporated, authorized capital comprised 100,000,000 no par value shares, of which 100 were issued and outstanding, all held by Her Majesty the Queen in right of the Province of Alberta.

On Jan. 15, 1975, a further 7,500,000 shares were issued to Her Majesty the Queen in right of the Province of Alberta.

In November, 1975, an initial public offering of 7,500,000 shares was made at \$10 (\$9.68 net) per share. All of these shares were taken up by residents of the Province of Alberta during the 15-day priority period before the shares were to be offered to other Canadian citizens.

On Dec. 4, 1975, 61,964 shares were issued pursuant to the company's Purchase Plan and the President's Employment Contract.

During 1976, 12,000 shares were issued for cash and 5,088 shares were redeemed for cancellation.

In 1977, 25,500 shares were issued and 3,500 shares were redeemed.

During 1978, 23,500 shares were issued and 2,625 shares were redeemed.

In 1979, 41,500 shares were issued and 4,516 shares were redeemed resulting in 15,148,835 shares outstanding at year-end.

Effective Apr. 23, 1980, a 3-for-1 stock split increased the company's authorized share capital to 300,000,000 shares. During the year, 14,000 new shares were issued for cash.

In 1981, 37,500 shares were issued and 6,750 shares were redeemed resulting in 45,491,255 shares outstanding at Dec. 31, 1981.

On Feb. 8, 1982, authorized capital was increased by the creation of 20,000,000 first preferred shares,

\$25 par value and 20,000,000 second preferred shares, \$25 par value. Subsequently, 2,400,000 15% series A first preferred shares were sold at \$25 per share.

During 1982, 412,515 11.25% second preferred shares, series 1, were issued in connection with the company's offer for Chieftain shares and in December, 5,312,500 common shares were issued at \$16 per share under terms of a public offering. Also during 1982, 3,000 common shares were redeemed.

During 1983, 12,500 common shares were issued for cash under the employee share option plan, bringing the total number of common shares outstanding at Dec. 31, 1983 to 50,813,255.

In 1984, 108,117 common shares were issued for cash under the shareholder investment plan and 11,750 common shares were issued for cash under the employee share option plan. At Dec. 31, 1984, there were 2,400,000 15% series A first preferred shares, 412,515 11.25% second preferred shares, series 1 and 50,933,122 common shares outstanding.

At a hearing held on Mar. 15, 1985, the Alberta Securities Commission granted an application made by Alberta Energy for an exemption, allowing the company to buy \$125,000,000 of its shares from the Alberta government at a price of approximately \$20 per share. The purchase of 6,237,500 of its common shares was subsequently completed. As a result of the transaction, the Alberta government's holding in Alberta Energy has been reduced to approximately 37% from 44% previously.

In May, 1985, the company sold 3,000,000 7.75% deferred convertible redeemable second preferred shares, series 2 at a price of \$25 per share through a group of underwriters.

Also during 1985, three second preferred shares were converted into six common shares, 6,237,500 common shares were purchased for cancellation, 158,022 common shares were issued under the shareholder investment plan and 22,920 common shares were issued under the employee share option plan. At Dec. 31, 1985, outstanding capitalization was follows: 2,400,000 15% Series A first preferred shares, 412,512 11.25% second preferred shares, series 1, 3,000,000 7.75% second preferred shares, series 2 and 44,876,570 common shares.

DIVIDENDS

15% First Preferred, Series A—Entitled to \$3.75 per share per annum, payable quarterly on the first day of March, June, Sept. and Dec. Initial dividend of 78.34 cents per share accruing from date of issue was paid June 1, 1982. A dividend of 93.75 cents per share, paid Sept. 1, 1982, established the annual rate of \$3.75 per share, payable quarterly.

11.25% Second Preferred, Series 1—Entitled to \$2.8125 per share per annum, payable quarterly on the first days of Oct., Jan., April and July. An initial dividend of 56.25 cents per share was paid on Oct. 1, 1982. A dividend of 70.31 cents per share, paid Jan. 1, 1983 established the annual rate of \$2.8125 per share, payable quarterly.

7.75% Second Preferred, Series 2—Entitled to \$1.9375 per share per annum, payable quarterly on the first days of January, April, July and October. An initial dividend of 24.42 cents per share was paid on July 1, 1985. A dividend of 48.4375 cents per share paid on Oct. 1, 1985, established the annual rate of \$1.9375 per share, payable quarterly.

Common—Present rate of 30 cents per share per annum, established with the payment of 30 cents on June 12, 1985. Previously, a rate of 25 cents per share per annum was established with the payment of 25 cents per share on June 29, 1984. A dividend of 20 cents per share per annum was paid from June 10, 1981 to June 1, 1983, inclusive and 15 cents per share paid June 11, 1980 (first following 3-for-1 split). Initial dividend of 30 cents per share paid June 19, 1979.

LONG-TERM DEBT

Payments required on long-term debt over the next five years are as follows: \$11,800,000 in 1986;

\$14,500,000 in 1987; \$16,600,000 in 1988; \$43,900,000 in 1989; and \$45,600,000 in 1990. Details of debt are as follows:

Alberta Energy Company Ltd.

Income debentures	\$180,000,000
Bank loan	10,000,000
Notes payable	258,300,000
Unsecured loan	75,000,000
Mortgages payable	5,300,000
Other	7,700,000
	536,300,000

Alberta Oil Sands Pipeline Ltd.**First Mortgage Sinking Fund Bonds:**

Series A	19,000,000
Series B	21,600,000
	40,600,000

Chieftain Development Co. Ltd.

Income debentures	21,400,000
Secured bank loan	111,800,000
Production loan	19,600,000
Purchase obligation	14,000,000
Other	2,900,000
	169,700,000

Total	746,600,000
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Less: Current amount

Total	734,800,000
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Alberta Oil Sands Pipeline Ltd.

9% First Mortgage SF Bonds, Ser. A—Dated June 15, 1977; due June 15, 1997.

Principal, premium, if any, and semiannual interest (June and Dec. 15) payable in Canadian funds at any branch in Canada of the Canadian chartered bank designated by the company. The initial interest payment of \$48.13 per \$1,000 principal amount was paid on Dec. 15, 1977.

Authorized and issued \$30,000,000; outstanding at Dec. 31, 1985, \$19,000,000.

Denominations—Available in coupon form registered as to principal only in denominations of \$1,000 and \$5,000, and in fully registered form in denominations of \$1,000 and multiples thereof.

Trustee—National Trust Co., Ltd.

Redemption—Redeemable in whole or in part on not less than 30 days' notice at the following percentages of principal amount if redeemed in the 12 months ending June 15 as follows:

1978	109.125	1984	106.00	1990	102.70
1979	108.75	1985	105.45	1991	102.15
1980	108.20	1986	104.90	1992	101.60
1981	107.65	1987	104.35	1993	101.05
1982	107.10	1988	103.80	1994	100.50
1983	106.55	1989	103.25		

and thereafter at par; in each case plus accrued interest. The company may not redeem the bonds prior to June 15, 1992, as part of a refunding operation having an effective interest cost to the company of less than 9.68% per annum. The company may purchase series A bonds in the market or by tender or private contract at prices not exceeding the then current redemption price plus accrued interest and costs of purchase. For sinking fund purposes redeemable at the principal amount plus accrued interest.

Sinking Fund—Sufficient to retire on June 15, in each of the years 1978 to 1996, inclusive, \$1,350,000 principal amount of series A bonds. In addition, the company will have the non-cumulative right to make optional sinking fund payments sufficient to retire on June 15 in each of the years 1978 to 1996, inclusive, up to \$300,000 principal amount of series A bonds.

Security—Direct obligation of the company and secured equally and rateably with any additional first mortgage bonds that may be issued, by a first and fixed mortgage, pledge and charge upon all fixed assets of the company, and a first floating charge upon that part of the undertaking and property and assets of the company acquired for purposes of constructing, operating and maintaining the pipelines.

Purpose of Issue—Net proceeds applied to the costs of purchase and construction of the pipelines.

Offered—In June, 1977, at 99.50 to yield approximately 9.68% by a group headed by Pitfield, Mackay, Ross & Co. Ltd., Richardson Securities of Canada, Wood Gundy Ltd., McLeod, Young, Weir & Co. Ltd. and Midland Doherty Ltd.

9% First Mortgage SF Bonds, Ser. B—Due June 15, 1997.

Authorized, \$32,500,000; outstanding at Dec. 31, 1985, \$21,600,000. Privately placed as to \$15,000,000 on Dec. 15, 1977 and \$16,500,000 on June 15, 1978 by Pitfield Mackay Ross Ltd., Richardson Securities of Canada, Wood Gundy Ltd., McLeod Young Weir Ltd., and Midland Doherty Ltd.

AEC Power Ltd.

The long-term debt of this company, although not consolidated with Alberta Energy, is presented here for information purposes.

10% First Mortgage SF Bonds, Series A—Dated Aug. 10, 1976; due June 30, 1996.

Principal and interest (June 30 and Dec. 31) and premium, if any, payable in Canadian funds at any branch in Canada of the Canadian chartered bank designated by the company.

Authorized and issued, \$100,000,000; outstanding at Dec. 31, 1985, \$79,718,000.

Denominations—Available in coupon form registrable as to principal only in the denominations of \$1,000 and in fully registered form in denominations of \$1,000 and integral multiples thereof.

Trustee—The Royal Trust Company.

Redeemable—In whole or in part at any time on 30 days' notice at the following percentages of principal amount on or before June 30 of each year:

1977	110.75	1983	107.20	1989	103.60
1978	110.20	1984	106.60	1990	103.00
1979	109.60	1985	106.00	1991	102.40
1980	109.00	1986	105.40	1992	101.80
1981	108.40	1987	104.80	1993	101.20
1982	107.80	1988	104.20	1994	100.60

and thereafter at par to maturity, plus accrued interest in each case. Redeemable at par plus accrued interest for sinking fund purposes.

Sinking Fund—Sufficient to retire \$5,000,000 principal amount on June 30 in each of the years 1982 to 1995, inclusive. In addition, the company will have the non-cumulative right to make optional sinking fund payments sufficient to retire \$1,000,000 principal amount on June 30 in each of the years 1982 to 1995.

Security—A direct and secured obligation of the company. In the event that the Syncrude Project is abandoned, the Alberta Government will guarantee repayment of the principal and interest of the first mortgage bonds.

Purpose of Issue—Net proceeds used to finance in part the company's construction of a utilities plant to serve the Syncrude Project in Alberta.

Offered—In July, 1976, at 99.50 to yield 10.81% by a group headed by Wood Gundy Limited.

9% First Mortgage SF Bonds, Series B—Dated Apr. 1, 1977; due June 30, 1997.

Principal and semiannual interest (June 30 and Dec. 31) and premium, if any, payable in Canadian funds at any branch in Canada of the Canadian chartered bank designated by the company. The initial interest payment of \$23.73 per \$1,000 principal amount was paid on June 30, 1977.

Authorized and issued, \$75,000,000; outstanding at Dec. 31, 1985, \$62,828,000.

Denominations—Available in coupon form registrable as to principal only in the denominations of \$1,000 and \$5,000 and in fully registered form in denominations of \$1,000 and integral multiples thereof.

Trustee—The Royal Trust Company.

Redeemable—In whole or in part at any time on 30 days' notice at the following percentages of principal amount on or before June 30 of each year:

1978 .. 109.625	1984 .. 106.60	1990 .. 103.30
1979 .. 109.35	1985 .. 106.05	1991 .. 102.75
1980 .. 108.80	1986 .. 105.50	1992 .. 102.20
1981 .. 108.25	1987 .. 104.95	1993 .. 101.65
1982 .. 107.70	1988 .. 104.40	1994 .. 101.10
1983 .. 107.15	1989 .. 103.85	1995 .. 100.55

and thereafter at par to maturity, plus accrued interest in each case. Redeemable at par plus accrued interest for sinking fund purposes.

Sinking Fund—Sufficient to retire \$3,750,000 principal amount on June 30 in each of the years 1983 to 1996, inclusive. In addition, the company will have the non-cumulative right to make optional sinking fund payments sufficient to retire up to \$750,000 principal amount on June 30 in each of the years 1983 to 1996, inclusive.

Security—Same as for series A.

Purpose of Issue—Net proceeds used to finance in

part the company's construction of a utilities plant to serve the Syncrude Project in Alberta.

Offered—In March, 1977, at 99.50 to yield 9.68% by a group headed by Wood Gundy Limited, Richardson Securities of Canada, Pitfield, Mackay, Ross & Company Ltd., McLeod, Young, Weir & Company Ltd. and Midland Doherty Ltd.

8% First Mortgage SF Bonds, Series C—Dated June 19, 1978, due June 30, 1998.

Authorized and issued; US\$55,000,000; outstanding at Dec. 31, 1985, US\$48,400,000. Interest payable June 30 and Dec. 31.

Redeemable at 108.625 to June 30, 1979, thereafter at 108.15 to June 30, 1980 and decreasing by 0.48 of 1% per annum to June 30, 1996 when at par.

Sinking fund sufficient to retire US\$3,300,000 annually in the years June 30, 1984-97 and optional fund, not to exceed US\$11,000,000 total, applicable as to US\$3,300,000 annually in the same years.

Sold in March 1978 by Merrill, Lynch, Pierce, Fenner & Smith, Inc.; Wood Gundy, Inc.; Richardson Securities, Inc.; Pitfield Mackay Ross & Co., Inc.; McLeod, Young Weir Inc. and Midland Doherty Inc.

INTERIM EARNINGS

Fiscal Year	3 months			6 months			9 months		
	Total Revenue	Net Inc. Oper.	Earns. per Com. Sh. ■	Total Revenue	Net Inc. Oper.	Earns. Per Sh. ■	Total Revenue	Net Inc. Oper.	Earns. Per Sh. ■
	—\$000's—			—\$000's—			—\$000's—		
1979 ..				21,074	11,958	0.26	58,100	19,300	0.43
1980 ..	‡	8,800	0.19	107,800	31,400	0.69	166,500	43,800	0.96
1981 ..	‡	16,100	0.35	130,200	32,200	0.71	206,500	35,900	0.79
1982 ..	75,300	11,700	0.25	169,000	24,400	0.48	262,800	25,600	0.45
1983 ..	108,900	13,600	0.22	219,400	29,600	0.48	331,900	42,200	0.68
1984 ..	128,300	18,900	0.32	258,200	40,700	0.70	366,700	56,200	0.96
1985 ..	142,300	25,300	0.45	290,200	51,000	0.94	412,000	63,600	1.15
1986 ..	129,300	10,700	0.15	248,500	25,300	0.39			

‡Unstated. ■ Adjusted throughout to reflect 3-for-1 split, Apr. 23, 1980.

Note—In 1979, interim results reported for six month period only.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 31

	1984	1983	1982	1981	1980	1979
	-\$000's					
Source of Funds:						
Funds from ops.	222,600	211,900	131,000	92,300	113,050	56,158
Extraordinary items	.....	.....	24,000	.....	.....	.....
Deferred income	1,300	1,900	68,900	3,400	9,021	3,481
Issue pref. shs. by subsid.	.....	23,500	.....	.....	.....	.....
Issue of pref. shs.	.....	.....	67,700	.....	.....	.....
Issue of com. shs.	2,400	100	79,700	600	253	1,142
Adv. from affil. co.	.....	.....	.....	.....	.....	*653
Deferred liab.	.....	.....	.....	.....	.....	.....
Dividend rec.	.....	.....	.....	.....	3,333	4,662
Long-term debt	184,100	19,600	206,000	273,400	14,955	104,985
Other	21,300	7,200	4,700	.....	.....	.....
	431,700	264,200	582,000	369,700	140,612	169,775
Application of Funds:						
Incr. fixed assets (net)	255,200	133,000	122,700	132,600	87,547	255,227
Decrease long-term debt	114,700	77,700	239,200	2,800	71,121	4,602
Invest. affil. cos.	4,200	30,700	.....	213,900	.....	.....
Acquisition of subsid.	.....	.....	139,000	.....	.....	.....
Increase other assets	.....	.....	2,500	800	2,601	2,192
Dividends	27,800	27,600	17,600	9,100	6,817	4,535
Curr. amt. def. liab. & rev.	8,400	5,100	.....	.....	.....	.....
Redem. pref. shs. subsid.	4,500	800	.....	.....	.....	.....
Reduct. deferred taxes	18,800	.....	.....	.....	.....	.....
Curr. amt., l.-t. debt & def. liab.	.....	.....	.....	4,400	6,191	.....
Extraordinary items	.....	.....	.....	14,700	.....	.....
	433,600	274,900	521,000	378,300	174,277	266,556
Increase working capital	*1,900	*10,700	61,000	*8,600	*33,665	*96,781

*Decrease.

Note—For current presentation of changes in cash, see following table.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 31

	1985	1984 [▲]
	-\$000's	
Operating Activities:		
Funds provided from operations	255,300	222,600
Net change in operating working capital	11,500	(7,500)
Deferred revenue	(8,900)	(2,400)
Other	4,500	900
	262,400	213,600
Investing Activities:		
Purchase of property, plant & equipment	(358,900)	(242,100)
Investment in affiliate & subsidiary	(2,900)	(4,200)
Proceeds on disposal of assets	3,200	19,000
Repayment of advance by affiliate	8,300	4,000
	(350,300)	(223,300)
Dividends:		
Preferred share dividends	(12,300)	(10,200)
Common share dividends	(13,400)	(12,700)
Dividends paid by a subsidiary to minority interests	(4,700)	(4,900)
	(30,400)	(27,800)
Net Cash Deficiency before Financing	(118,300)	(37,500)
Financing Activities:		
Issue of long-term debt	261,100	184,100
Repayment of long-term debt	(107,300)	(123,500)
Issue of preferred shares—net	71,800	.....
Issue of common shares	3,200	2,400
Purchase of common shares	(125,000)	.....
Redemption of pf. shs. of a subsid.	(800)	(4,500)
Other	(1,100)	.....
	101,900	58,500
Increase (decrease) in cash and short-term investments less bank indebtedness	(16,400)	21,000
Cash & s-t investments less bank indebtedness at year end	56,500	72,900

[▲]As shown in the 1985 annual report.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Years Ended December 31

	1985	1984	1983	1982	1981	1980	1979
				\$000's			
Revenues:							
Oil & gas	404,000	352,400	338,800	282,500	222,200	184,788	34,870
Pipelines	59,700	43,800	43,100	34,800	24,700	22,724	13,556
Other	82,700	88,000	80,200	56,800	38,200	25,086	d212
	546,400	484,200	462,100	374,100	285,100	232,598	48,214
Less: Gen. & admin. exps.	26,400	23,200	23,100	14,900	10,900	8,339	5,519
Operating expenses	189,300	176,100	168,600	146,400	126,100	99,701	*
Depr., depl., amort.	96,900	73,400	75,200	45,400	28,800	23,399	.....
Interest expense	47,500	39,300	41,800	60,700	45,100	17,428	3,037
Income taxes: Current	1,000	3,400	4,900	2,700	1,200	1,000	1,000
Deferred	75,200	74,100	68,300	24,800	14,200	32,090	19,439
P.G.R.T.	33,200	32,500	29,500	29,500	15,600	.....	.....
Minority interest	5,100	6,700	5,100	2,800	.....	.....	.....
Add: Equity in affil. earns.	8,700	10,000	7,000	d18,700	d800	4,804	6,006
Allow. on equity AOSPL	.....	.....	.....	.....	.....	.....	197
Net income, operations	80,500	72,300	62,400	33,600	42,400	57,445	27,422
Less: Extraord. item†	.....	.....	.....	21,000	12,700	.....	.....
Net income	80,500	72,300	62,400	54,600	29,700	57,445	27,422
Add: Prev. retained earns.	266,100	216,700	177,300	140,000	119,400	68,729	45,842
Less: Pref. divs.	13,800	10,200	12,400	6,900	.....	.....	.....
Common divs.	13,400	12,700	10,200	9,100	9,100	6,817	4,535
Financing costs	1,700	.....	400	1,300	.....	.....	.....
Purch. & canc. com. shs.	96,300	.....	.....	.....	.....	.....	.....
Retained earnings	221,400	266,100	216,700	177,300	140,000	119,357	68,729

* Net of royalties, net of operating expenses in 1979. After depreciation, depletion and amortization charges of \$15,778,000 in 1979.

*Unstated. *Credit.

†Represents a write-off of the company's investment in the Petalta Project in 1981 and cash received (net of taxes) under a heavy oil technology agreement in 1982.

Earnings per Share:

Based on net income, operations

Pref.: Times earned*	15.83	17.09	15.03	14.87	.....	.....	.....
Common: Earned▲	\$1.44	\$1.22	\$1.03	\$0.57	\$0.93	\$1.26	\$0.60

Based on net income

Pref.: Times earned*	15.83	17.09	15.03	17.91	.....	.....	.....
Common: Earned▲	\$1.44	\$1.22	\$1.03	\$1.03	\$0.65	\$1.26	\$0.60

*Based on dividends paid. ▲Adjusted throughout to reflect 3-for-1 split Apr. 23, 1980.

Dividends Paid:

15% First pref.	\$3.75	\$3.75	\$3.75	\$3.5959	.....	.....	.....
11¼% Second pref.	2.8124	2.8124	2.8124	1.2656	.....	.....	.....
7.75% Second pref.	72.8575†	.....	.....	.....	.....	.....	.....
Common (new)	0.30	0.25	0.20	0.20	\$0.20	\$0.15	.....
Common (old)	.....	.....	.....	.....	.....	.....	\$0.30

†Includes initial.

Shares Outstanding:

15% First pref.	2,400,000	2,400,000	2,400,000	2,400,000	.....	.....	.....
11¼% Second pref.	412,512	412,515	412,515	412,515	.....	.....	.....
7.75% Second pref.	3,000,000	.....	.....	.....	.....	.....	.....
Common, n.p.v.	44,876,570	50,933,122	50,813,255	50,800,755	45,491,255	45,460,505	15,148,835

CONSOLIDATED BALANCE SHEET AT DEC. 31

	1985	1984	1983	1982	1981	1980	1979
	\$000's						
Assets							
Current:							
Cash, s.-t. deposits, etc.	59,600	73,200	92,100	87,300	32,000	19,426	39,526
Accts. receivable	92,400	75,400	80,000	87,800	34,900	28,423	23,159
Inventories	17,500	17,900	18,000	19,000	16,000	10,547	9,715
Prepaid & def. exp.	2,600	2,300	2,000	1,500	3,700	3,676	1,069
	172,100	168,800	192,100	195,600	86,600	62,072	73,469
Investments	263,400	267,300	260,500	225,800	247,300	37,010	35,079
Fixed Assets:							
Oil & gas	1,463,200	1,203,600	1,041,800	930,100	538,300	486,159	143,469
Pipelines	284,700	243,200	169,700	165,900	140,900	99,929	98,507
Other	179,200	138,400	136,500	141,200	98,700	57,584	317,217
Less: Accum. depr., etc.	353,200	261,500	192,700	129,000	83,900	49,780	27,300
	1,573,900	1,323,700	1,155,300	1,108,200	694,000	593,892	531,893
Other assets	4,100	5,100	5,400	9,300	9,000	9,726	10,578
	2,013,500	1,764,900	1,613,300	1,538,900	1,036,900	702,700	651,019
Liabilities							
Current:							
Bank debt	3,100	300	40,200	20,800	.....	.....	.....
Accts. payable	108,700	95,400	72,700	81,400	68,800	49,824	27,799
Divds. payable	4,300	2,800	2,800	400	.....	.....	.....
Income, other taxes pay.	8,600	2,300	2,400	20,300	10,300	.....	.....
Deferred revenue	9,400	8,300	3,600	.....	.....	.....	.....
L.-t. debt due, def. liab.	11,800	9,800	18,600	10,200	6,000	1,660	1,418
	145,900	118,900	140,300	133,100	85,100	51,484	29,217
Deferred revenue	72,400	80,500	87,600	89,300	18,700	15,281	6,481
Deferred liabs.▲	42,200	44,500	44,500	45,900	45,900	45,911	50,442
Def. income taxes	341,100	270,400	212,400	148,200	79,400	69,830	37,740
Long-term debt	734,800	577,400	506,300	564,000	518,100	251,773	309,599
Minority interest	99,900	101,700	103,200	79,000	.....	.....	.....
Shareholders' Equity							
Capital stock	354,300	304,800	302,400	302,300	149,700	149,064	148,811
Retained earnings	221,400	266,100	216,700	177,300	140,000	119,357	68,729
Less: Unreal. for. exch. loss ..	*1,500	*600	100	200	.....	.....	.....
	2,013,500	1,764,900	1,613,300	1,538,900	1,036,900	702,700	651,019
▲Acquisition costs of Suffield Block and Primrose Range properties. *Gain.							
Working capital (\$000's)	26,200	49,900	51,800	62,500	1,500	10,588	44,252
Ratio	1.18—1	1.42—1	1.37—1	1.47—1	1.02—1	1.21—1	2.51—1
Equities:							
Net worth* (\$000's)	577,200	571,500	519,000	479,400	289,700	268,421	217,540
15% First pref.	\$240.50	\$238.13	\$216.25	\$199.75	.....	.....	.....
11¼% Second pref.	1,253.78	1,239.95	1,112.69	1,016.69	.....	.....	.....
7.75% Second pref.	168.97	.....	.....	.....	.....	.....	.....
Common, n.p.v.†	\$9.62	\$9.84	\$8.83	\$8.05	\$6.37	\$5.90	\$4.79

*Available for capital stock. Based on shareholders' equity, represented by book value of shares plus retained earnings; in 1984 and 1985 adjusted to reflect \$600,000 and \$1,500,000 respectively unrealized foreign exchange gain; in 1982 and 1983 adjusted to reflect \$200,000 and \$100,000 respectively unrealized foreign exchange loss. Preferred stock deducted at par before calculating equity per common share.

†Adjusted throughout to reflect 3-for-1 split, Apr. 23, 1980.

HISTORICAL SUMMARY

(As originally stated in company's annual reports for the respective years)

Fiscal Year	Total Assets	Working Capital	Shldrs.' Equity	Revenue	Cash Flow	Net Inc. Oper.	Earns. Per. Sh.	Price Range High Low
	\$	\$	\$	000's	\$	\$	\$	Common Shares
1974 ..	1,436	d1,665	d242	57		d242	...	
1975† ..	195,987	123,073	150,735	5,290	3,718	3,981	0.26	
1976 ..	216,419	68,377	159,275	9,531	8,263	8,460	0.56	†12.25 †8.50
1977 ..	273,291	15,495	174,400	14,266	17,112	14,857	0.98	19.25 11.75
1978 ..	504,139	141,033	193,511	26,929	30,493	18,786	1.24	19.75 14.63
1979 ..	651,019	44,252	217,540	48,214	56,158	27,422	1.81	43.25 18.63
1980 ..	702,700	10,588	268,421	232,598	113,050	57,445	▲1.26	▲24.38 ▲12.50
1981 ..	1,036,900	1,500	289,700	285,100	92,300	42,400	0.93	27.75 14.00
1982 ..	1,538,900	62,500	479,400	374,100	131,000	33,600	0.57	20.25 8.00
1983 ..	1,613,300	51,800	519,000	462,100	211,900	62,400	1.03	21.25 13.63
1984 ..	1,764,900	49,900	571,500	484,200	222,600	72,300	1.22	23.25 17.63
1985 ..	2,013,500	26,200	577,200	546,400	255,300	80,500	1.44	22.13 16.13

†Listed Jan. 26. ■ Net of operating expenses in 1979 and prior years.

‡As shown in the 1976 annual report. ▲Reflects 3-for-1 stock split Apr. 23, 1980.

(This information is obtained from sources we believe to be reliable, but is not guaranteed)

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